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TODAY

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Morgan Leads Charge on Gilts

Big Bang to Its UK Unit Is Government Securities

By JOHN J. DUFFY
London Bureau

LONDON — For Morgan Guaranty Ltd., all the commotion in the stock market here following last Monday's Big Bang has been little more than a sideshow.

The Big Bang

MGL, the merchant banking arm of the Morgan Guaranty Trust Co. of New York, has been keeping a sharp eye on developments in the equities market but, in typical Morgan fashion, it has preferred to let others lead the charge into such uncharted territory. However, drawing on its strength in the international bond markets, it has led the way in another direction.

"Big Bang to us is really U.K. government securities, or gilts," Alfred Vinton, vice chairman of Morgan Guaranty Ltd., said in a recent interview. "Although the big fuss has been largely in equities, the real volume, the real action from our point of view, is gilts."

The gilt market, so called because British government bonds are printed on gilt-edged paper, accounts for between two-thirds and three-quarters of London Stock Exchange volume. Last year, turnover was about $370 billion.

Such volume is puny, however, compared with the $2.5 trillion that changed hands in the Eurobond market last year and the $1 trillion-plus in the U.S. Treasury market. And following

Morgan: Page 28 ➡

Illinois Marine Buys Back Investment, Felling Another Early Stakeout Deal

By BART FRAUST

NEW YORK — Another of the early interstate stakeout agreements, signed before the advent of regional banking, has been terminated.

Marine Corp., a Milwaukee-based bank holding company, said Friday that Illinois Marine Bancorp Inc., Elmhurst, Ill., has exercised an option to repurchase an investment held by Marine Corp. since 1983.

Interstate Banking

The decision to end the relationship followed Illinois Marine's rejection of a merger proposal by Marine, said Loren Clark, executive vice president of Illinois Marine.

"They made an offer to us, and we felt it wasn't enough," he said, adding that the company intends to remain independent.

"The investment affiliation had three major goals, which included licensing our name in the Chicago area in order to support the efforts of our loan production office in the area, which was accomplished," said George R. Slater, chairman and chief executive officer of Marine.

"We also wanted to make a good investment, and we are pleased not only with the $4.4 million profit Marine will realize but also by the income stream provided by the 11% current return

Stakeout: Page 9 ➡

Indiana Bank's 4 Purchases Approved
Page 9

What Happens If Government Loans Go Bad?

Pressure Could Mount For Recourse Provision

By JAY ROSENSTEIN
Washington Bureau

WASHINGTON — The Reagan administration could come under more pressure from Congress next year to provide some guarantee on government loans sold to the public.

The administration recently began selling loans in the government's portfolio as a way to generate revenue to cut the budget deficit and to improve federal credit management.

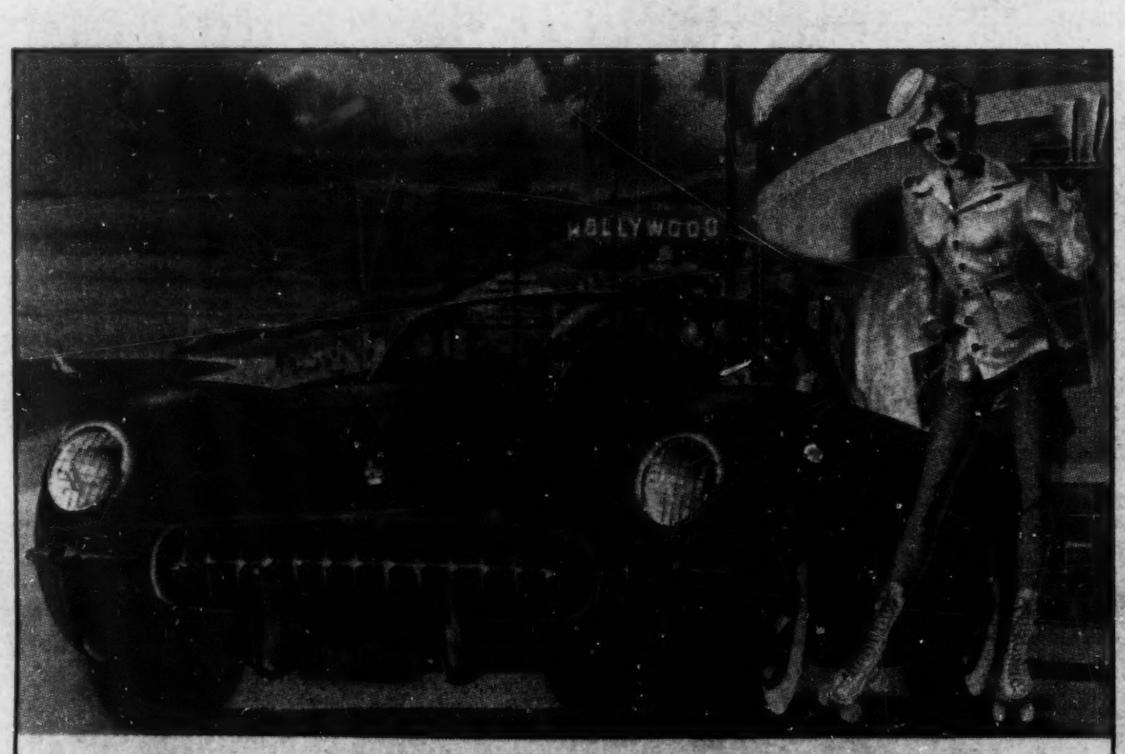
The requirement from the administration's Office of Management and Budget that agencies sell their loan assets without future recourse to the federal government has been criticized. Under current guidelines, buyers in the private sector who purchase government loans do so without any guarantee that the government will pay in case of default by the borrowers.

A report by congressional investigators at the General Accounting Office released in late September contends that without some flexibility by agencies to offer some form of recourse, investors will be less interested in making the purchases.

Sen. William V. Roth, R-Del., chairman of the Senate Governmental Affairs Committee, wrote a letter to the Office of Management and Budget on Oct. 21 stating that in light of the GAO report, he wants "to avoid outcomes that might fairly be characterized as 'fire sales' by an acutely attentive press and public."

Mr. Roth added, though, that he recognized the benefits of a nonrecourse sale requirement in helping the agencies upgrade the documentation of their loan portfolios.

Government Loans: Page 31 ➡



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Reporter's Notes

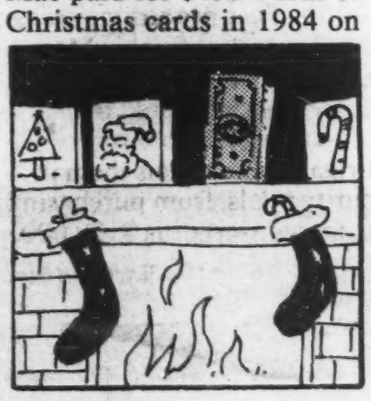
Age Vanity?

Ginnie Mae has been lying about her age, but a new rule change by the Government National Mortgage Association should set the record straight. Louis Gaspar, GNMA executive vice president, said some originators were doing such things as putting 26-year mortgages into a pool along with a single 30-year loan and calling the entire package a 30-year pool, thus causing confusion and consternation among investors. From now on, 90% of the mortgages in a pool must have the same term as the longest-term mortgage in that pool, Mr. Gaspar said.

Greetings

Since the Federal Home Loan Mortgage Corp. paid for Chairman Edwin J. Gray's official extravaganza through Europe, why not his official Christmas cards?

Documents released last week show that Freddie Mac purchased four $260-apiece Wimbledon tickets for him and his family during a lavish business trip to Europe in 1985 (since then, Mr. Gray has reimbursed the agency for the tickets, as well as other items). Among those documents were receipts showing that Freddie Mac paid for $432 worth of Christmas cards in 1984 on



behalf of Mr. Gray, who is also chairman of the Federal Home Loan Bank Board.

A Freddie Mac spokesman says the cards were a normal business expense that "is not at all unusual." He added that Mr. Gray sent the cards to industry officials who do business with Freddie Mac.

Briefly• • •

When bankers attending the American Bankers Association pulled out of San Francisco last week, they were replaced by another group of bankers. The American Association of Blood Banks began its 39th annual meeting during the weekend. • • • The ABA is planning its first national conference for compliance managers, bank counsel, and auditors for three days here next September. • • • The Independent Bankers Association of America has published a booklet setting out how the new tax law could affect small banks. • • • Among the new coalitions in town is the Alliance for Capital Access, a gathering of issuers of high-yield securities also known as "junk bonds."

— Jim McTague, Nina Easton, and Jay Rosenstein

A Banker's Guide to the Elections

By JAY ROSENSTEIN

Tuesday, American voters will choose 34 senators, 435 House members, and maybe, as a result, a new national policy on banking. Here's what to look for when the election returns come in.

• **Control of the Senate:** Whether the Democrats take control from the Republicans is the big question this year. Doing so would mean new Senate leadership and new committee chairmen. Sen. William Proxmire, D-Wis., could end up once again as chairman of the Banking Committee. Other possibilities are Sens. Alan Cranston of California or Donald W. Riegle Jr. of Michigan. A Democrat-controlled Senate Banking Committee could mean less talk in that forum about expanding bank powers and more scrutiny of financial institutions and their regulators. Consumer issues and rental housing also could become priorities in the Senate. With Democrats in control of both the House and the Senate, there could be more cooperation between the two banking committees, but they might be more at odds with a Republican administration on banking legislation and matters such as nominations to the Federal Reserve Board.

• **Some key Senate races:** Seven of the 15 current Banking Committee members are up for reelection, but only Sens. Slade Gorton, R-Wash., and Mack Mattingly, R-Ga., are considered in much trouble. Chairman Jake Garn, R-Utah, will be reelected easily. Democratic Rep. Timothy E. Wirth, an outspoken cynic when it comes to expanded bank powers, is battling to become a Colorado senator and could end up on the Banking Committee.

• **Some key House races:** Banking Committee Chairman Fernand J. St Germain, D-R.I., facing allegations of wrongdoing, is in his first close race in years but should win reelection. Rep. George C. Wortley, R-N.Y., a banking supporter also suffering from some recent bad publicity, might not be as lucky as the chairman. Other committee members in tough battles: Reps. Stephen L. Neal, D-N.C., a subcommittee chairman; Stewart B. McKinney, R-Conn., and John Hiler, R-Ind.

• **New faces from the industry:** Bill Grant, a Florida Democrat who for the last 14 years has been the president of the Bank of Madison County, Madison, Fla., seems likely to win a vacant House seat. Robert Neall, a commercial loan officer for the last four years with the Annapolis Banking and Trust Co., Maryland, is doing well in his campaign for a House seat despite being at a disadvantage in name recognition — and in height. His Democratic opponent is Tom McMillen, a six-foot-eleven former professional basketball player. Bill Story, once a Bank of America employee, is waging an uphill battle for a Democratic seat from Colorado. On the Senate side, Idaho Gov. John V. Evans, a Democrat, who with his family has had an ownership interest in a few banks there, is fighting incumbent Republican Steven D. Symms. ■

Drawings by Peter Kuper

Financial PAC Dollars Soar For Banking Panel Leaders

On Eve of Election, Incumbents Ride Funding Wave

By PAMELA J. PODGER

Federal Election Commission reports show that total political action committee, or "PAC," contributions to top-ranking members of House and Senate committees have doubled and in some cases nearly tripled since their last elections.

Donations by financial PACs encompass the special — and often competing — industry interests of securities, insurance, real estate, commercial banks, thrifts, and credit unions.

Roughly 300 political action committees of financial industry-related firms are among the total 4,092 PACs registered as of July 1986 with the Federal Election Committee.

Among banks' and thrifts' political action committees, however, donations are dwarfed by the $1,874,639 in contributions made to members of Congress by the Realtors Political Action Committee, which represents the National Association of Realtors. Similarly, insurance political action committees are very large. The American Bankers Association's BankPac is a leader, having set a record in gathering funds this election cycle and with $868,250 in donations made so far in the 1985-86 period, as indicated by the accompanying table.

Of the top-ranking House Banking Committee members, Chairman Fernand St Germain, D-R.I., has received the most from financial-industry political action committees. As the banking panel chairman and an incumbent in a close race this year, he has accumulated the greatest amount of total political action committee contributions — $242,702 — in comparison with other top-ranking members of the committee.

Rep. John J. LaFalce, D-N.Y., who says he has been outspent 2 to 1 in his previous races, notes that raising money is a necessary part of campaigning. "It's necessary to spend money to win elections, and so it's necessary to raise money," says Mr. LaFalce. "PAC money is no better and no worse than any other type of money."

To avoid the political sensitivities of accepting funds from such committees, key banking committee members such as Sen. William Proxmire, D-Wis., and Rep. Jim Leach, R-Iowa, simply return the contributions.

Political action committees also may opt to contribute to both an incumbent and his opponent, but perhaps more to one than the other. For example, Senate Banking Committee member Mack Mattingly, R-Ga., holds a narrow lead in his race against Rep. Wyche Fowler Jr., D-Ga., a member of the House Ways and Means Committee. So far, the Household Finance Corp. has contributed $1,500 to Sen. Mattingly and $500 to Rep. Fowler. "Household isn't committed to any individual and selects candidates who are good for business in general," says J. Thomas Nelson, Household's vice president of federal government relations.

Mark Clark, a spokesman for the U.S. League of Savings Institutions, expresses a commonly heard rationale for giving: Political action committees are collective groups that are taking part in the political process.

Political action committees' contribution criteria include a candidate's publicly expressed opinions and voting records, and also recommendations from association members whom the challengers or incumbents serve, he says.

"Political contributions are what gain access. As an industry group you're taking part in the political process to insure there is a voice for your business," Mr. Clark says. "You can have more impact in supporting candidates who you believe are good for your business. If you want to call it influence peddling, you can."

— Ms. Podger writes on business for the Medill News Service in Washington.

Election Eve Look at PAC Donations

Donations by a Sample of Financial PACs

	Jan. 1, 1985 - Sept. 30, 1986
American Bankers Association	$868,250
Credit Union National Association	$400,712
U.S. League of Savings Institutions	$368,375
Textron (formerly Avco Corp.)	$347,400
Citicorp	$295,163
Morgan Stanley & Co.	$264,000
E.F. Hutton Group Inc.	$249,728
Barnett Banks of Florida Inc.	$202,750
Beneficial Management Corp.	$195,130
Merrill Lynch & Co.	$189,084
Independent Bankers Association of America	$169,229
Investment Company Institute	$162,827
Household Finance Corp.	$149,450
Salomon Brothers Inc.	$140,900
National Council of Savings Institutions	$116,388
Bear, Stearns & Co.	$103,450
National Consumer Finance Association (American Financial Services Association)	$97,489
Association of Bank Holding Companies	$92,240
Securities Industry Association Inc.	$50,650
First City Bancorporation of Texas	$28,050

PAC Funds Accepted

Senate Banking Committee Members Facing Reelection

	Total PAC Funds 1980 race	Total PAC Funds Jan. 1, 1985 to Oct. 15, 1986	Funds from PACs listed above
Republicans			
Jake Garn, Utah	$285,909	$486,252	$54,100
Alfonse D'Amato, N.Y.	$273,260	$689,512	$36,699
Slade Gorton, Wash.	$151,038	$861,050	$59,460
Mack Mattingly, Ga.	$116,419	$679,504	$62,250
Democrats			
Alan Cranston, Calif.	$418,316	$1,168,763	$52,500
Christopher Dodd, Conn.	$268,388	$585,097	$39,900
Alan Dixon, Ill.	$287,154	$811,210	$69,000

House Banking Committee Members

Top 10 Ranking Democrats Seeking Reelection

	Total PAC funds 1984 race	Total PAC Funds Jan.1, 1985 to Oct. 15, 1986	Funds from PACs listed above
Fernand J. St Germain, R.I.	$228,800	$242,702	$53,500
Henry Gonzalez, Texas	$24,758	$24,200	0
Frank Annunzio, Ill.	$91,123	$108,782	$28,250
Walter Fauntroy, D.C.	$24,815	$16,020	$5,500
Stephen Neal, N.C.	$178,406	$205,500	$30,200
Carroll Hubbard, Ken.	$164,950	$208,075	$19,775
John LaFalce, NY	$72,268	$39,043	$16,250
Mary Rose Oakar, Ohio	$118,289	$186,494	$8,175
Bruce Vento, Minn.	$113,071	$112,860	$10,000
Doug Barnard Jr., Ga.	$113,875	$129,150	$24,809
Robert Garcia, NY	$123,672	$139,775	$19,575
Charles Schumer, NY	$56,845	$39,650	$6,000
Top Five Ranking Republicans Seeking Reelection			
Chalmers Wylie, Ohio	$120,503	$158,253	$38,603
Stewart McKinney, Conn.	$131,257	$209,721	$22,380
Jim Leach, Iowa	Declines PAC contributions		
Norman Shumway, Calif.	$140,451	$92,590	$14,500
Stan Parris, Va.	$269, 063	$155,222	$19,893

Source: Federal Election Commission reports and research by Pamela J. Podger.